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AUTHOR Taylor, Jeffrey R.
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ABSTRACT

This unit, intended for use with secondary students, presents background information on the Chinese economy. The subject warrants serious consideration because Sino-American trade has grown remarkable in the last decade and economic events occurring in China have the capacity to affect events in this country. The unit contains a six part narrative which students are to read. The parts are: The Setting in 1949: A War-torn and Shattered Economy; The First Five-year Plan: 1953-1957; The Great Leap Forward, Catastrophe, and Recovery, The Cultural Revolution; The Decade of the 1970s: Recovery from the Cultural Revolution, the Death of Mao, and Major Policy Changes; and Conclusion. In the introduction the author suggests the use of visiting speakers, audiovisual displays, and student presentations to supplement the reading materials. A list of films on the Chinese economy which are available from the Media Center of the University of Michigan concludes the lesson. (Author/RM)

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Sowing and Reaping a Revolution: Economic Change and Growth in the People's Republic of China, 1949-1981

By Jeffrey R. Taylor for the
Project on East Asian Studies
in Education (PEASE)
108 Lane Hall
University of Michigan
Ann Arbor, Michigan 48109

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Introduction.

I was really quite concerned when I was first asked by PEASE to prepare an educational unit for high school teachers on the Chinese economy. Although most economists consider the study of a country's economy to be really interesting and worthwhile, the average non-economist considers the discipline to be hideously complex, hopelessly arcane, and insufferably dull. How on earth, I wondered, can I convince a teacher already strapped for time to include in his or her presentation on modern China some mention of a subject with such an awful reputation?

To begin with, I'd like to try and allay any fears that this unit on the Chinese economy is too dry and dull. In writing this unit, I deliberately tried to avoid getting too complex and empirical, and sought instead to describe economic processes and events in terms easily understood by the layman. In short, I have tried to make this unit the average non-economist's guide to Chinese economic history. Whether or not I have succeeded on this score is yet to be seen, though believe me, it's really not as hard to read as you may fear.

Of course, it makes little sense to present a subject to a class, however interesting and cleverly packaged, unless that subject is an important one. Why then, should you allocate some time to discuss the economy of modern China, along with all the other topics on China you were planning to cover? Three reasons stand out in my mind for including some mention of the Chinese

economy. First, the basis for much of the renewed interest in China here in the United States is economic, namely, the economics of foreign trade. Sino-American trade has grown remarkably in the last decade, and the desire to expand this commercial link was intregal in the decision of this country to establish formal diplomatic relations with China. Second, China is a large country, and economic events occuring there have the capacity to affect events in this country. For example, the Chinese crop failures of the early 1970's that prompted mammoth grain imports from the U.S. raised the price of bread in this country. Even now, fears that inexpensive Chinese-made clothes will flood U.S. markets and force U.S. garment workers out of business has prompted the U.S. to negotiate with the Chinese to get them to restrict their sales of textiles to the U.S. Finally, economics is inextricably linked to virtually every facet of Chinese life. In centuries past, if crops failed and economic hardship was forced upon the countryside, the Chinese peasantry would charge that their emperor had lost the "mandate of heaven", and the way would be cleared for a new ruler to step in. Even in modern China, authorities embrace the Marxist notion that the underpinnings of all social and political institutions lay in the kind of economy a country has adopted, and thus that social progress must be based on "proper" economic relations.

There are undoubtedly many other reasons for including some mention of the Chinese economy, though I hope that the three reasons I have outline above are enough to convince you that it is a subject that warrants serious consideration. Now we must address the

sticky subject of what goals such a presentation should serve. I fully realize that you may only be able to spend a single class period or less on this subject. Given this time constraint, I would suggest the following objectives:

1. Rather than attempt an encyclopedic survey of the Chinese economy, try and restrict yourself to making sure that your students know a few things well. In this unit I have tried to outline what I consider to be those "few things", as regards China's economic history since 1949.

2. Since your time won't be long enough to cover everything of importance, it is essential that the presentation be made as interesting as possible, so that your students will be motivated enough to read items in the newspaper or magazines on their own later on to fill in the gaps.

3. Finally, you should be prepared to provide tips to those highly motivated students you may have, on where they can go to find out more about the Chinese economy. A list of references was included at the end of this unit with this goal in mind.

The means that you could employ to achieve these goals are almost without limit. In addition to the usual lectures or assignment of reading materials, you could try to arrange visiting speakers (perhaps a local businessman who has been to China), audio-visual displays (PEASE has a selection of flims and slides that deal with China), or even student presentations. I advise that you not limit yourself to just these suggestions. I may understand the Chinese economy better than you, but you <u>definitely</u> understand your class better than I, and the kinds of presentation techniques that will catch their attention.

I have only one other point to make, but it is an important

one. This unit on the Chinese economy is rather short, and should by no means be the sole reference for your presentation. Entire volumes have been written on the Chinese economy, some of which are documented in the list of references at the end of this unit. I have relied heavily on the books by Eckstein, Howe, and Prybyla listed there in preparing this unit,* and suggest that you consult at least one of them prior to making your presentation, at least as regards the areas you plan to highlight. Having dispensed with that final bit of advice, I hope that you find this unit useful, and I wish you good luck on your presentation.

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* Not listed on the Reference page because of their advanced nature, but heavily drawn on in preparing sections V and VI of this paper, were two papers written by Professor Robert F. Dernberger of the University of Michigan. They are "Radical Ideology and Economic Development in China: The Cultural Revolution and its Impact on the Economy," Asian Survey, Vol. 12, No. 12 (December 1972), pp. 1048-65, and "Communist China's Industrial Policies: Goals and Results," Issues and Studies, Vol. XVII, No. 7 (July 1981), pp. 34-75.

I. The Setting in 1949: A War-torn and Shattered Economy.

With the founding of the People's Republic of China on October 1, 1949, the Chinese communist party was confronted with a staggering array of problems. These problems can be summarized into three basic groups: a) Economic stabilization and reconstruction; b) Laying the groundwork for economic development; and c) Establishing the authority of the Chinese communist party to carry out any reforms.

Without a doubt, the most pressing problem was that of economic stabilization and reconstruction. The Chinese economy in 1949 was in shambles from the combined effects of the 1937-45 Sino-Japanese war and the civil war with the Nationalist party that followed it and continued up through 1949. Industrial production had plummeted, both from war-spawned shortages and plant destruction, and from the actual carrying off of about half of China's most modern industrial machinery in Manchuria by the Soviet Union after 1945. Agricultural output had fallen as well, due to the bombing of ancient dikes and irrigation canals. Even those scarce agricultural and industrial goods that were produced had trouble reaching consumers, because fighting had disrupted the transportation system and cut rail lines. These shortages of consumer goods, together with massive deficit spending by the Nationalist government to finance the war, had resulted in commodity prices rising an astounding eight and a half trillion times between 1937 and 1949. Starvation, unemployment, and social unrest were the brood of this marriage of catastrophes, and commanded the immediate attention of the government authorities.

Laying the groundwork for economic development was a lesser priority during these years, though ultimately quite important. Even if China had somehow emerged from the war years unscathed, it would still have been an extremely poor developing country. Having by the twentieth century already fully exploited the traditional means of increasing agricultural production (cultivating more land, irrigating, and trying more productive crop varieties), China's food production was not keeping pace with rapid population growth. Rural poverty, inequality in land ownership, and land shortages were real problems well before the rise of the Chinese communist party. Industry, too, had its share of problems. The technical level of pre-war Chinese industry was low, and many of the industrial goods needed by China prior to 1949 had to be imported. The bulk of China's industry was concentrated on the country's eastern seaboard, and rendered even more remote from the rest of the country because of the country's antiquated transportation system. Control over industrial resources was further exacerbated by the fact that much of the country's heavy industry was foreign owned. Thus, even though rebuilding the country from the ravages of war took top priority, the Chinese communists fully recognized that even in this early stage steps would have to be taken to pull the country out of poverty, lest it find itself there permanently.

Finally, it must be recognized that remedying any of the above problems required that the Chinese communists acquire the authority to act conclusively. Though they had successfully tested some of their proposed reforms in Yan'an (1931-1934), North Shanxi (1935-47),

and Manchuria (1946-49), the flight of many business and political leaders in 1949 clearly testified that many prominent Chinese citizens viewed the coming to power of the Communist party with alarm. To obtain the authority to carry out the country's rebuilding, the Chinese communists thus had to either win these people over to their side, or take measures to nullify their opposition.

These three problems -- economic reconstruction, laying the groundwork for economic development, and the consolidation of authority to act -- were the focus of the Chinese communists from 1949 to 1952. The measures taken to deal with these problems must now be addressed.

As mentioned before, the chief problem facing the Chinese was that of economic reconstruction. Since most of the reconstruction problems were manifested in soaring prices, an examination of measures taken by the Chinese to curb inflation more or less touches on all the corrective measures taken during this period.

Getting a firm handle on inflation was essential for the fledgling Chinese government. Aside from its staggering economic costs, inflation sapped the political authority of the communists to consolidate their position and carry out other badly needed reforms. From the time of imperial dynasties onward, the Chinese people have regarded inflation as a sign of a weak government. Inflation also tended to dissipate the support of the civil servants, whose purchasing power fell rapidly as their wages failed to keep pace with price increases. Finally, inflation tended to benefit the wealthy (whose profits tended to keep pace with prices), yet hurt the fixed-

income poor -- the exact opposite of what the new communist authorities wanted.

The measures taken by the new government sought to attack inflation at its roots. To curb excess demand for goods, government expenditures were cut back, and tax receipts were increased by overhauling the tax system, thereby bringing the national budget back into balance. On the monetary front, demand was further curbed by unifying the nation's currency system (a confusing array of different currencies were used as legal tender prior to this point), sharply curtailing bank credit, and instituting a series of innovative savings programs. The supply of goods to markets was increased by the rebuilding of irrigation dikes and dams, the restoration of the transport system, and the establishment of state trading companies that sought to stabilize prices and redirect commodities to areas where they were needed most.

Along with these measures, a number of other programs were implemented, having important economic and political implications. The first of these was a program of land reform. Over the course of four years (1949-1952), some 45% of China's land was redistributed to about two-thirds of its peasant population. Although this move enabled Chinese authorities to aquire further tax revenues via land rents, the primary purpose of the land reform was to oust the local landlords from political power. It should also be noted that this was no tea-party: an estimated 800,000 to 2 million persons lost their lives as part of this "reform". The second important set of measures were those enacted to expand the government's control over

the finance, production, and distribution of goods. The creation of the previously mentioned state trading companies figured prominently here, along with the promotion of a banking monopoly under the People's Bank of China.

From the standpoint of economic reconstruction, the measures taken during this period were a remarkable success. After only three years (1947 to 1952), prices were effectively stabilized, and industrial capacity was approaching pre-war levels. Politically, the above measures consolidated the communists control over the country, paving the way for the introduction of an ambitious development program.

When viewed overall, two remarkable points emerge. The first point is that the communist authorities by and large avoided nationalizing business, seeking instead to enlist the support of private enterprise in the task of economic reconstruction. Since state ownership of all means of production is one of the central tenets of Marxist economic thought, it is clear that the Chinese communists exercized considerable restraint in this early period. The second point is that the "tools" used by the Chinese authorities to restore the country back to economic health during this period were not the heavy-handed directives and orders usually identified with socialist governments. They were instead measures similar to those advocated by conservative economists in the United States today: balanced budgets, and tight fiscal and monetary controls. In short, the Chinese solved their problems in these early years using pretty conventional tools, demonstrating their pragmatism

and the high priority they placed on economic stability over a radical socialist transformation at this time.

II. The First Five-Year Plan: 1953-1957.

Having brought existing industrial facilities back in operation, the Chinese authorities felt it urgent that they press forward with the task of developing the country's economy. The strategy they first pursued to carry out this task has been variously described as a "Soviet", "Stalinist", or "Command Planning" strategy.

As you may have already guessed, the Chinese largely inherited this strategy from their only real ally of this period, the Soviet Union. The hallmark of the "Soviet Strategy" was rapid economic growth, with an emphasis on the development of heavy industry. To accomplish this, essentially three things had to be done. First, a centralized system of national planning had to be instituted to ration scarce resources and see that they were amply available to priority sectors. Second, ownership and management relations had to be restructured to give the government greater control over the actual operation of the economy. Finally, society had to be either persuaded or forced to achieve a high rate of savings, in order to match the high rate of planned investment.

China's first five-year plan embraced all of these notions. Skeleton targets for the first five-year plan were announced in 1953, and fleshed out by 1955. A "dual track" planning hierarchy was developed, where government organs responsible for plan administration were matched level for level by communist party organs

responsible for ensuring that the party line was adhered to. The government enlarged its control over the economy gradually at first, using Soviet assistance and tax revenues to build state-owned industrial facilities. Commercial cooperatives were also promoted, via a system of incentives and pressures. In 1955, this "gradualist" approach was cast aside, and a policy of nationalization and forced conversion to joint state-private enterprises was pursued. By 1956, over 95 percent of China's commerce was either state or joint state-privately owned.

The 1955 shift in policy affected the agricultural sector profoundly. In the eyes of party leaders, the land reform of 1949 was a necessary political evil that had been useful in consolidating their support in the countryside. They had, however, never forsaken their beliefs that collectivization would bring about certain economies of scale in farming, by combining the small, fragmented peasant plots into larger parcels. Thus, starting in 1952, they encouraged more and more farming families to pool their labors at harvest time by forming Mutual Aid Teams. These Mutual Aid Teams, a form of producer cooperation often practiced on a voluntary basis by peasant farmers before 1949, were later expanded to include sowing and cultivating activities. In 1955, the communist party suddenly pressed hard for the conversion of all Mutual Aid Teams into Agricultural Producer Cooperatives, where land, labor, and tools of peasant households were pooled, and private ownership suspended. There were two forms of Agricultural Producer Cooperatives: Lower-stage APC's and Higher-stage APC's. Lower-stage APC's were first

promoted, and provided both land and labor income to former land owners. Higher-stage APC's, which followed, allowed only for shared labor income. By 1957, over 90 percent of all peasant households belonged to Higher-stage APC's. Agriculture in China thus went from predominantly private ownership to collective ownership and operation in just five years -- a truly remarkable institutional transformation in so short a time period.

The first five-year plan ended in 1957, and is generally regarded as having been successful. Industrial production grew at an impressive 18 percent rate, and growth was fastest in the important coal, iron and steel, electricity, and cement industries. Equally impressive was the fact that price stability was maintained despite strong demand for scarce investment goods -- an accomplishment few developing countries can lay claim to.

The record for this period is not without some blemishes, however. First, in their haste to develop heavy industry, Chinese authorities neglected agriculture -- the sector that provided many important industrial inputs and foreign exchange for machinery imports. The shortages spawned by this neglect forced a retrenchment in development plans in 1957. Second, the focus on developing heavy industry, which uses a lot of capital but little labor, did little to relieve urban unemployment. Third, the approach and goals of China's plan sowed seeds of conflict with their chief benefactor, the Soviet Union. The highly centralized planning and administrative trappings of Soviet-style planning in China required a large bureaucracy, which was particularly unpopular with Chairman Mao Zedong.

This early ideological rift with the Soviets was compounded by China's insistence on developing its own industrial base -- a strategy at odds with the Soviet Union's desire to have China focus on agrarian development as part of a socialist "international division of labor."

The Chinese leadership were aware of all these problems, and their policies in the next phase of development sought to address them. It is to this next period that we now turn.

III. The Great Leap Forward, Catastrophe, and Recovery.

From 1956 to 1957, the Chinese enacted a series of measures aimed at relieving the shortages and bottlenecks engendered by the first five-year development plan, and undertook a thorough review of their progress and policies. Though criticism of the more radical policies of the previous five years was quite vocal in such movements as the short-lived "Hundred Flowers" campaign of 1957, the less moderate forces in the Chinese communist party held sway, and in 1958 launched China on an unprecedented crash-course in economic development: The Great Leap Forward.

The primary goals of the Great Leap Forward (the promotion of water conservation, tool improvement, rural small-scale industries, and people's communes) look pretty mundane, and in fact were discussed by Chinese authoritites two to three years before 1958. The distinguishing factor of the Great Leap Forward was the relentless ambition with which these goals were pursued. Three underlying ideas comprised the foundation for the Great Leap Forward policies.

The first idea was that both agriculture and industry must be promoted. Industrial development had always been a favorite of the Chinese authorities, but the question was, how does one promote agriculure as well without detracting from the precious resources that industry needs? The answer was twofold. First, squeeze existing resources in agriculture to get greater output. The existing resource that bore the brunt of this burden was labor. By mobilizing surplus labor in agricultural communities to carry out large-scale land reclamation and water control projects, one could supposedly improve harvests without having to provide agriculture with more industrial supplies, such as fertilizers and tractors. Second, in cases where there was no escaping the need to increase the supply of agricultural inputs in order to get better harvests, create rurally-based small-scale industrial facilities to produce the needed supplies. The Chinese dubbed this brainchild "walking on two legs", meaning that by using surplus labor and relatively simple technology, rakes, hoes, pitchforks, plowshares, and all other agricultural implements could be produced in the countryside, leaving the output of China's existing factories for use in the development of heavy industry.

The second major idea embraced during the Great Leap Forward was that having too many decisions made at the top was counterproductive. Since it was reasoned that those on the scene in villages obviously had a better knowledge of local conditions than their superiors in the provincial offices or in Peking, decentralization was the order of the day. This did not mean that counties and

villages were completely free to do whatever they wanted, but it did encourage spontaneous projects and ideas at lower levels.

The third major notion embraced addressed the problem of how the vast reserves of surplus labor in the countryside were to be mobilized to "walk on two legs" and make their own decisions. Incentives such as higher pay and larger private plots on which to grow vegetables were viewed as crass, capitalist tools, inadequate to the task of motivating the masses to carry out the momentous work at hand. Instead it was felt that public praise, public criticism, and constant reminders to workers of their obligations to their fellow men were better incentives to achieve the desired ends. To help ensure the success of these normative appeals and also promote the goal of rural industrialization, Higher-stage Agricultural Producer Cooperatives were combined into groups of twenty to thirty to form People's Communes. Since People's Communes restricted private ownership even more than before, they were viewed by authorities as being an ideological advance, and were as well the chief vessel for mobilizing labor and agricultural savings. The People's Communes averaged about 5,000 households, and incorporated entire villages and regions. The Higher-stage and Lower-stage APC's from which the People's Communes were formed continued to exist as lower level units (the Brigade and the Team, respectively), but now had to cede control over their work assignments and income to the far-removed Commune administration.

Favorable harvests marked the first year of the Great Leap Forward (1958), providing ample grist for China's industrial

facilities. The large harvests boosted exports, providing foreign exchange earnings which in turn enabled the Chinese to import badly needed machinery and equipment from the Soviet Union. This, coupled with large-scale mobilizations of labor, resulted in impressive increases in the output of both large and small-scale industry. Buoyed by these initial results, Chinese authorities cast caution to the wind and pressed even more relentlessly forward in 1959, counting on the high agricultural yields of 1958 to be duplicated or surpassed on reduced acreage and increased sweat. At this time the strains in the system began to emerge. Agricultural output dropped sharply in 1959, both from poor weather and the profoundly disruptive effects communization had on farming patterns, labor use, and water resource planning. Although industrial output advanced in 1959, the "more is better" approach pushed by Chinese authorities resulted in a substitution of quantity for quality. For example, the promotion of "backyard furnaces" to create iron and steel did increase output, though the output was so poor in quality as to be virtually useless.

These problems came to a head in 1960, when the drop in agricultural production of the previous year began to be felt. Not only were severe food shortages experienced, but the drop in raw material deliveries to light industry resulted in shortages of <u>all</u> consumer goods. The decline in output of both agricultural and consumer goods forced a reduction in exports, and thus a curtailment of the imports of capital goods for heavy industry, because of foreign exchange shortages. Finally, heavy industry, struggling to meet existing

orders in the face of dwindling raw material and imported inputs, was dealt a knockout blow by the abrupt departure of all Soviet technical advisors in early autumn. China's ambitious attempt to hurdle the many problems of economic development in one "great leap" thus ended in dismal failure. From 1960 to 1962, the country was mired in a severe depression, as bad if not worse than the Great Depression of the 1930's in the United States.

Recovery from this self-induced catastrophe required a quick reversal of priorities. There were at least four major policy changes implemented in the 1962 to 1967 period to address the problems associated with the failure of the Great Leap Forward. First, since the starting point for the failure of the Great Leap Forward was the collapse of the agricultural sector, the development of a strong agricultural base became the top priority. It is important to note that this "Agriculture First" strategy sought not just an increase in agricultural inputs, but a change in the kind of inputs to be employed. As noted earlier, the Chinese had pretty much exhausted all possibilities of getting increased harvests using traditional methods. The failure of the Great Leap Forward's attempts to get better harvests via traditional techniques combined with radical organizational changes in agriculture graphically illustrated the need to employ modern techniques. Accordingly, government expenditures for chemical fertilizers, modern agricultural machinery, and rural electrification rose significantly. Accompanying these priority and technology restructuring efforts were measures designed to decentralize planning in the People's Communes and provide greater

material incentives to rural farmers.

A second major feature of the economy during this period was "self-reliance". Strictly speaking, this was not a policy, but rather, a sudden curbing of imports and foreign indebtedness brought about by China's rift with the Soviet Union. When the Sino-Soviet split came to a head in 1960, the Chinese were beset with four major problems. First, they had essentially parted ways with a trading partner that directly and indirectly provided them with the bulk of their key industrial imports. Second, they were at loggerheads with their single largest export market, making it difficult to earn foreign exchange to buy substitute imports from other foreign countries. Third, they were in the unfortunate position of having to pay some $1.4 to $2.2 billion worth of loans back to the Soviet Union on these dwindling foreign exchange reserves. Finally, even if they did have enough money to import goods from alternative foreign suppliers, the loss of Soviet advisers and technicians in key industries would have hampered their ability to put the funds to good use. The obvious solution to all of these problems to the Chinese was to cut back on imports, promote the development of industries producing the items previously imported, and diversify trading partners in an effort to lessen dependence on Russia and her allies. This, in a nutshell, was "self-reliance".

The third major policy change was to slow down the pace of economic growth. Though this was partly a natural result of stressing rapid growth only in select industries rather than across the board, it was still a conscious effort to avoid the shortfalls and

bottlenecks precipitated by the "big push" policies of earlier years.

Finally, politics yielded to performance as the criteria for judging the efficacy of projects. This meant that the opinions of technicians and engineers took precedence to those of others in determining which projects to pursue, and how they should be carried out. It also meant that material incentives became preferred to exhortations as a means of getting the "masses" to carry out the national economic plan.

Following a good harvest in 1962, the Chinese economy slowly and steadily improved through 1967. The legacy of the Great Leap Forward and the following period of readjustment has continued on, however. People's Communes remain a fact of life in modern China still, albeit with lower-level decision making now stressed. Rural small-scale industries continue to be actively promoted, though with greater attention paid to what industries lend themselves to small-scale production. The rural electrification program, which arose from the "Agriculture first" strategy, has greatly aided rural water control and improved rural living conditions. Lastly, the doctrine of "self-reliance" has become an oft-mouthed fixture of Chinese foreign trade policy, though with a radically different meaning as trade has expanded with the West in the 1970's and 1980's.

The slow return to economic and political normalcy was seen in most quarters as a welcome event, though certain factions began to fear that this success could lull China's bureaucrats into a sense of complacency, making them lose touch with the people and the principles on which the country was founded. The stage was thus set for

the next wrenching phase of China's economic history: The Cultural Revolution.

IV. The Cultural Revolution.

The political chaos and human suffering wrought by the Cultural Revolution has been amply documented in the Western press. The economic implications of this chapter of Chinese history are somewhat less clear, however. To gain a full understanding of this period, we must step back a few years.

Though there was little dispute in 1949 that China should be established as a socialist nation, there were two basic schools of thought as to how China's socialist transformation should evolve. The first school, led by Liu Shaoqi, contended that after having carried out the basic reforms of 1949 to 1952, the country should go slow on further moves to change patterns of ownership and income distribution, instead concentrating on economic development. The second school, led by Communist Party Chairman Mao Zedong, contended that the socialist transformation should instead proceed at a rapid pace, for a true socialist society would only be achieved via the establishment of socialist institutions. Implicit in this latter school of thought were the notions of unending "class struggle", an emphasis on involving the "masses" in policy formation, reduction in income differentials, and a downplaying of material rewards as incentives.

During the Great Leap Forward, the disciples of the Maoist school of thought held sway, putting many of their cherished notions

into practice. Even before the economic collapse that followed, the advocates of Liu Shaoqi's go-slow approach began to regain control, eventually overshadowing the Maoists in the major political and governmental offices. Even though Mao and his disciples effectively surrendered control of economic policy following the Great Leap Forward, they did not abandon their beliefs. From 1960 through 1965, Mao frequently aired his ideas of drawing on the collective spirit of the "masses" to promote economic development, the primacy of political education, and the necessity of "class struggle", but largely to a deaf audience. With levels of output approaching their pre-Great Leap levels in late 1965, Mao finally made his bid to re-establish his control by launching the Cultural Revolution. Thus, even though the Cultural Revolution may have appeared on the surface to be merely a struggle for political power, this struggle in fact masked a fundamental difference of opinion between two rival factions as to how quickly the socialist transformation of the Chinese economy should proceed.

However disruptive and painful the Cultural Revolution was for China politically, its short-term economic impact was relatively minor. Economic policy discussions were more noted by their absence during these years, though the Maoists did call for the primacy of politics over economics, development of the economy through the mobilization of the "masses" rather than centralized bureaucratism, the elimination of wide income differentials, the promotion of "self-reliance", and the removal of such vestiges of capitalism as private

plots, relying on markets for resource allocation, and the use of material incentives for workers. The transportation system was disrupted by the forays of youthful Red Guard in and out of Peking, and absenteeism and fighting resulted in the closing of numerous factories for short periods. In the face of all this, industrial output fell an estimated 18 percent in 1967, but rose to its previous level by 1969.

The long-term implications of the Cultural Revolution have been far more striking. The closing and altering of competitive entrance standards of China's universities by the Maoists resulted in the loss of almost a generation of badly needed skilled technicians and scientists, hampering later development efforts. Bonuses for workers overfulfilling their quotas were curtailed until the latter half of the 1970's in hopes of achieving a more egalitarian income distribution. The Maoists also gave their stamp of approval to China's unique tiered planning system, a decentralized set-up where counties and communes have considerable say in drawing up their own plans, but are still subject to central and provincial control. In a further effort to decentralize (of perhaps politicize) the economy, "Revolutionary Committees" were created in all production units, thereby enabling the "masses" to have a more direct input into the decision-making process. Finally, rural small-scale industry was given yet another boost, so as to promote the Maoist notion of "self-reliance".

It is thus clear that despite its brevity (1966 to 1969), the Cultural Revolution had been long foreshadowed by basic philosophical

differences with economic underpinnings, and that many of the resultant policies had long-term implications. Disappointing harvests in 1968 and 1969 did not slow the recovery from the Cultural Revolution much, and a bumper harvest in 1970 cleared the way for another period of expansion.

V. The Decade of the 1970's: Recovery from the Cultural Revolution, the Death of Mao, and Major Policy Changes.

1970 through 1972 were years of consolidation and reassessment for the Chinese. The Cultural Revolution may have purged China's political system of "undesirables", but it had not purged the economy of its basic problems. The country was, in a sense, approaching a crossroads: further increases in output would require both the modernization of existing industrial facilities (particularly in the transport, iron and steel, and coal sectors), and the construction of entirely new industries to compliment existing sectors (namely, chemical fertilizer plants for the agricultural sector, and petrochemical plants for the petroleum industry).

To begin addressing these problems, a plan of action was needed, and skilled administrators were needed to carry it out. Accordingly, Premier Zhou Enlai announced in 1970 that a draft version of a fourth five-year plan for 1971-1975 had been drawn up, and a number of previously purged administrators (notably Deng Xiaoping) were rehabilitated shortly thereafter. A diplomatic offensive was launched in 1972 to reestablish ties with the United States, Japan, and other major nations, so that China could draw on Western expertise and

and technology to modernize its factories. As a result, China's trade with non-communist countries rose by almost 150 percent from 1970 to 1973.

All was not well for China, however. The increasing age and infirmity of both Chairman Mao and Premier Zhou began to touch off a behind-the-scenes power struggle for their successors. In August of 1973, the more radical party members launched the "Criticize Lin Biao and Confucius" campaign, which was really an attack on the policies of Zhou Enlai and Deng Xiaoping. The ensuing factional disputes disrupted factory output and the transportation system, causing actual declines in industrial output for some provinces in 1974, and a low rate of growth for the country overall. Though the economy improved somewhat in 1975, the death of Zhou Enlai in early 1976 brought the political power struggle out into the open. The economy lurched to a halt in the third quarter of 1976, aided both by the political chaos and by a devastating earthquake in Tangshan, which killed more than 650,000 persons and caused billions of dollars worth of damage.

Chairman Mao Zedong died in September of 1976, and within a month, the alleged perpetrators of the chaos and opposition to Zhou and Deng's policies -- the legendary "Gang of Four" (Yao Wenyuan, Wang Hongwen, Zhang Qunqiao, and Mao's wife, Jiang Qing) -- were put under arrest and ousted from power. The victors quickly began a wholesale dismantling of the Maoist program that had been so assiduously built up over the years.

At this point, it is useful to pause and draw an analogy to

illustrate why economic policy decisions have evolved as they have since 1976. The Chinese economy may be thought of as an egg. The yolk of the egg represents the core, or economic system of the economy, which in this case is the Soviet model: state ownership of the means of production, national economic planning, prices set by fiat, and so on. The surrounding layers of the egg represent the various layers of economic policy, for they protect, feed, and help the development of the yolk, or economic system, here. The two basic economic policies of the Chinese economy up to this point, the Maoist strategy (detailed in section IV), and the Stalinist strategy (an emphasis on the rapid development of heavy industry at the expense of other sectors), are thus represented by the shell and the white of the egg, respectively. Now, should the egg fail to hatch, there are clearly three possible explanations: the shell could be cracked, the white flawed, or the yolk infertile. When one holds the egg in one's hand and sees cracks on the surface, the immediate presumption is that the shell is the culprit, though in fact the white or yolk being damaged could have easily contributed to the egg's failure to hatch, as well.

This is analogous to the situation that the new regime found itself in in late 1976. At the outset, it appeared that the obvious reason for China's ailing economy was the set of Maoist policies that had been introduced over the previous decade. As such, it was decided that politics should take a back seat to economic development, that Revolutionary Committees should be disbanded in favor of of "one-person management" in enterprises, that bonuses should be

restored, pay hikes given, and income differentials played down, that imports of needed plants and equipment rather than "self-reliance" should be encouraged, and that private agricultural and sideline markets should be permitted where they provide necessary consumer goods and services. However by late 1978, the appearance of severe bottlenecks and disproportionalities in industry led participants in the Third Plenary Session of the Eleventh Central Committee to conclude that perhaps both the shell and the white of the egg were flawed. That is, that perhaps both the recently dethroned Maoist policies and the long-embraced Stalinist strategy were to blame for China's continuing economic woes.

As a result of this analysis, it was announced by Hua Guofeng in July of 1979 that the ambitious ten-year plan launched in 1975 would be shelved, and that the economy would undergo a three year period of readjustment. The Stalinist "big push" approach of starving agriculture and light industry to fatten heavy industry was thus revised in favor of a more balanced growth policy. The rate of investment was thus slowed, agricultural purchase prices raised, and a greater share of state investment was allocated to the agriculture, light, and consumer good industries.

Unfortunately, after the implementation of these policies, the Chinese economy began to experience budget deficits, inflation, and a continuation of urban unemployment, trade balance deficits, and bottlenecks in the energy and transportation sectors. These problems prompted the announcement by Hua Guofeng at the Third Session of the Fifth National People's Congress in September of 1980 of a

two year extension of the readjustment period, and a new five-year plan for 1981 through 1985. Though the balance of trade improved in 1980 and light industrial production soared, heavy industrial output rose only 1.6 percent, and the government budget deficits continued. Thus in early 1981, the national budget and economic plan were both scaled back.

The presence of continuing economic problems despite adjustments made to economic policy has led some Chinese authorities to conclude that perhaps the yolk as well as the shell and white of the egg need to be reexamined. That is, that perhaps changes need to be made to the Soviet system adopted by the Chinese, as well as to economic policy. Though it is probably premature to draw any final conclusions, the Chinese have since 1978 been experimenting in various plants with systemic reforms. These include allowing plants to produce and market commodities outside their production assignments, enhanced profit and foreign exchange retention provisions, granting local authorities greater autonomy in tax and expenditure matters, and the closing of some inefficient production facilities. Whether or not these experiments will be promoted economy-wide is a moot issue, though they do represent a significant departure from earlier practices.

VI. Conclusion.

The direction that the Chinese economy takes from this point on is quite hard to predict. Judging from past experience, policy

reversals and ideological shifts are virtually certain, and these are likely to have an economic impact. It may be fair to say, however, that despite the plethora of reforms introduced in the latter half of the 1970's, it is extremely doubtful that China will reject socialism as its economic inspiration. Even Western economists generally agree that a socialist economy can "work", though perhaps less efficiently than a free-market system. Certain socialist economic systems <u>are</u> known to work better than others, though (compare Hungary with Czechoslovakia), thus future changes in China's economy may well be made with an eye to achieving greater efficiency in a socialist context.

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Appendix A:

Films on the Chinese Economy available from Michigan Media

A. Agriculture.

1. China and its Agriculture (1969).
2. China Today (1972).
3. Commune Workers (date unknown).
4. Life in North China (1971).

B. Perceptions of Chinese Workers.

1. Misunderstanding China (1972).

C. Economic Geography.

1. China: A Portrait of the Land (1967).

D. Economic History of China.

1. China: the Social Revolution (1967).
2. China: Century of Revolution (1967).

E. Industrial Development.

1. China and its Industry (1969).
2. China Today (1972).
3. China's Industrial Revolution (1967).
4. Life in North China (1971).

PEASE has descriptions and evaluations for some of these films on file.